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UNCLAS SECTION 01 OF 02 DHAKA 001355

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TAGS: [ECON](#) [SENV](#) [ENRG](#) [BTIO](#) [BG](#)

SUBJECT: SIMULTANEOUS WATER, POWER AND GAS SHORTAGES PLAGUE BANGLADESH

1. Summary: Inadequate utilities - gas, water and electricity - routinely plague Bangladesh, but new shortages and delivery problems have made the problem particularly acute now. While the shortages should ease in the coming months, solutions to the chronic problems have been slow to develop and in some cases may bring additional problems. Failure to address these and other infrastructure needs undermines growth and development. End Summary

2. In recent weeks, Bangladesh has experienced a shortage of gas, water, and electricity. An unusually dry March has reduced water supplies. Field maintenance and weaknesses in the distribution system have reduced gas supplies and, more importantly, gas distribution pressures. Maintenance problems have also prevented many power plants from operating at full capacity. In a situation reminiscent of the children's nursery rhyme, for want of adequate gas, the power generators can't operate; for want of the power generators, the water pumps can't pump. In short, these critical utilities are interdependent such that problems with any one utility resonate throughout the system, causing shortages in rural and urban areas throughout the country.

3. These shortages are having an immediate impact on agriculture and commerce. Farmers have difficulty irrigating the winter rice crop without adequate water and electricity to operate the distribution pumps, which is expected to adversely affect yields. Rice prices are rising. "Load shedding" (the local term for planned blackouts) has literally left students in the dark as they prepare for exams, and disrupts smaller manufacturers without dedicated power generation facilities. To address acute needs, the BDG has ordered controversial power diversions from major markets and large office and retail complexes during peak hours, insisting they use their own captive generators. Faced with rising fuel prices for their generators, operators of Dhaka's shopping malls are fighting this order, while offering alternative proposals like shutting off half their lights to curtail demand or shutting down their shops for one or two hours at a time.

4. While acute shortages are creating real hardship, they should dissipate in coming months. Occasional rains are occurring more often and the rainy season is expected to begin in May. Unocal has just brought a new gas field on line and maintenance work on other fields should be completed shortly. The additional gas will enable power plants to run closer to their rated capacities.

5. The government, however, has done little to address the chronic weakness of its utility infrastructure. Faced with a generating shortfall of more than 15% of electricity demand, the BDG has been slow to authorize new plants despite foreign investors ready, willing and able to construct and operate new capacity. The current BDG has yet to add a single new MW of generating capacity during its three years in office. The BDG has also reduced its power purchases from independent operators due to rising fuel prices, which operators may incorporate into the takeoff price paid by the BDG.

6. Economic growth is also putting pressure on gas supplies, despite record output in recent days as a result of the new Unocal field at Moulavi Bazaar. Officials at Petrobangla estimate a shortfall of 150 million cubic feet per day (mmcf) of gas needed for electric power generation. Concerns over gas supplies may also be behind government hesitation to authorize new plants, including the planned investment by India's Tata group. BDG officials are reportedly very concerned with the ability of Bangladesh to meet 20-year supply contracts out of current proven reserves. One BDG official conceded to EconOff that a major overhaul of the gas sector would be needed in the next year and a half in order to meet demand, although he said little was being done.

7. Bangladesh's major cities - Chittagong, Khulna, and Dhaka - have suffered from inadequate water supplies and sewage treatment for years. Chittagong's government water supply system only meets 30% of the daily demand. Although the Chittagong Water and Sewer Authority (WASA) branch was established 43 years ago, there is still no sewer system. Khulna suffers from major salinity problems due to seawater contamination of surface and ground water. Dhaka's surface water sources are large enough to meet current demand but are

so polluted that they cannot be used and the cost of treatment and decontamination is prohibitive. Instead, Dhaka's water demand is supplied from the local aquifer, but exceeds the aquifer's recharge capacity.

18. The Dhaka WASA recently announced plans to develop a system of 1000-meter deep tube wells to replace the existing 450-meter deep wells, many of which have run dry. While meeting the intermediate needs of Dhaka's population, this solution will only defer the long-term problem. Moreover, overtaxing the underground aquifer renders Dhaka far more vulnerable to major damage in the event of a large earthquake. Seismic disaster experts predict a major earthquake along the Himalayan fault line, which runs through Bangladesh, sometime in the next ten years.

19. There does not appear to be a grassroots response to these shortages among average Bangladeshis. The opposition Awami League party has responded to the shortfalls with organized protests demanding adequate supplies of water, power, and gas, but the protests have failed to draw support outside of party activists. Businesses and manufacturers have largely taken the problems in stride, developing their own solutions to chronic problems. Bangladesh is one of Caterpillar's best markets for generators, while larger manufacturing facilities often install captive 10-15 MW gas turbine generators to meet their own needs. While solving the immediate problem, these ad hoc solutions undermine political pressure for long-term solutions to Bangladesh's critical infrastructure needs. As the issue of gas supply for new power plants illustrates, however, these chronic problems, if not addressed, will adversely affect Bangladesh's medium and long-term growth prospects.

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